



STATE OF MICHIGAN

**Family
Independence
Agency**

Memo

235 S. Grand Avenue
Suite 1504 Grand Tower Building
Lansing, MI 48909
www.michigan.gov/fia

**POLICY ANALYSIS AND PROGRAM
EVALUATION DIVISION**

Tel: 517-393-6831
Fax: 517-373-4865

To: Executive Council

Date: April 8, 2003

From: Charles Overbey

Subject: FY 2004 President's Budget

Attached is an analysis of the FY 2004 budget that President Bush presented to Congress in February. Included are descriptions of changes to TANF and other programs that will directly impact the Michigan Family Independence Agency. If you have questions call Rosemary Lee at 517-335-3935.

Attachment

cc: Rosemary Lee
PAPE

ANALYSIS OF THE PRESIDENT'S FY 2004 BUDGET PROPOSALS

Produced by:

Michigan Family Independence Agency
Policy Analysis and Program Evaluation Division

April, 2003

Introduction

On February 3, 2003 President Bush released his budget proposals for FY 2004. At that point congress had not yet passed the 13 appropriations bills for FY 2003. That was accomplished on February 13, 2003 four months into the fiscal year. The bills were signed into law on February 20, 2003. The FY 2004 presidential request funds most education and health and human services programs at FY 2002 levels.

Congress is responsible for reviewing the president's budget requests and passing a Budget Resolution, which serves as a guide to congressional spending plans for the upcoming fiscal year. Congress is required to pass a concurrent budget resolution, an agreement by both the House and Senate, which is binding on both. However, this resolution is not public law and does not require the president's signature.

The following analysis includes a brief overview of presidential budget requests and congressional budget resolutions plus details of funding that directly affects the Michigan Family Independence Agency, its clients and programs.

Budget Overview

Budget surpluses are a thing of the past, and this budget represents a return to deficit spending for FY 2003, FY 2004 and well into the future. Importantly for states, reauthorization of the 1996 welfare reform legislation will take place this year.

The president's budget is seen as a tradeoff between domestic needs and defense funding. Many if not most domestic programs are level funded or reduced in order to increase defense and homeland security spending. Most discretionary programs are currently funded at FY 2002 levels and are expected to decline 1.9% between FY 2002 and FY 2004.

The budget resolution also sets levels of budget authority, outlays and revenues, and provides a framework for the drafting of budget policies. The budget process will now move to the passage of appropriations bills. The more difficult and contentious bills, such as Labor, Health and Human Services and Education (Labor/HHS/Education) will require the most time and traditionally are not completed until well into autumn.

INCOME SECURITY

Temporary Assistance for Needy Families (TANF)

TANF is a block grant to the states designated for time-limited assistance programs for families in their efforts to achieve self-sufficiency. Enacted on August 22, 1996, the Personal Responsibility and Work Opportunity Reconciliation Act (PL 104-193), also known as Welfare Reform, replaced Aid to Families with Dependent Children (AFDC), Emergency Assistance (EA), and Job Opportunities and Basic Skills Training (JOBS) with the TANF block grant.

Funding for TANF was set at \$16.7 billion for the years 1997-2002. States were allotted a share of the \$16.7 billion based on previous expenditures in AFDC, EA and JOBS. In order to qualify for the full block grant, states were required to meet work participation rates and match 75 percent of their state expenditures for AFDC in 1994.

Authorization for TANF funding expired at the end of FY 2002 and has been authorized by a series of continuing resolutions through June 30, 2003. On February 4, 2003, the House of Representatives introduced its welfare reform proposal, the Personal Responsibility, Work and Family Promotion Act (H.R.4). The Senate passed its own version (S.367) on February 12, 2003. The two bills have much in common.

Some key features of the TANF proposals in the bills:

- TANF is basically level funded at the current \$16.489 billion with no inflationary factor. Restoration of the supplemental grants to states at \$319 million and an additional \$2 billion for a renewed contingency fund were included as well.
- Social Services Block Grant (SSBG) to be level funded at \$1.7 billion (house bill) with a transferability from TANF at 10%. The Senate proposed restoration of funding to 2.8 billion, with transferability of 10%.
- Work requirements are raised in 5% increments from 50% of families required to work to 70% of families by FY 2008. The number of required hours per week would be raised from 30 hours to 40. The 40 hours may be a combination of a minimum of 24 hours of employment and up to 16 hours of other activities such as education or job training.

Michigan's TANF block grant would continue to be authorized at \$775,353,000.

Child Support

The Child Support program provides federal grants to the states to assist in locating absent parents, establishing paternity and enforcing support obligations. Under original legislation in P.L. 104-193 (Welfare Reform), states would have lost a portion of TANF funding for failure to complete a statewide automated child support tracking system.

However, the Child Support Performance and Incentive Act of 1998 allowed states missing the October 1, 1997 deadline for completion of such a system to keep all of their TANF funding. The bill also created incentives to reward states that have established effective support enforcement systems.

States are awarded funds quarterly based on their estimates of funds needed to provide support enforcement services to eligible individuals. The federal government pays 66 percent of the administrative costs incurred by each state under an approved state plan (Title IV-D). The federal government provides 90 percent of developmental costs for a child support data processing system. The Labor/HHS/Education appropriation bill funds Child Support.

The president's budget included 13 legislative proposals related to child support. Some of these are:

- Federal seizure of accounts of delinquent parents in multi-state financial institutions
- Intercept of gaming proceeds
- Garnishment of Longshore and Harbor Worker's Compensation Act Benefits
- Access by the Federal Parent Locator Service (FPLS) to insurance settlement databases
- Increased funding for assess and visitation
- Direct access for Indian tribes to the federal income tax refund offset program and the federal FPLS
- Contractor and tribal access to tax data
- Optional passthrough and disregard above current efforts
- Optional simplified distribution
- Review and adjustment of child support orders
- Reduced threshold for denying passports to noncustodial parents with overdue support from \$5,000 to \$2,500
- A \$25.00 annual fee for never-TANF cases with collections

CHILD CARE

Child Care Entitlement - Mandatory and Matching

This program was authorized in Welfare Reform (P.L. 104-193) to assist low-income families, families on public assistance and families going from public assistance to work in obtaining childcare. This program replaced AFDC/JOBS childcare, transitional childcare and at-risk child care. States are required to spend a minimum of 4 percent on programs to improve the quality and availability of safe childcare.

The federal budget proposal for FY 2004 provides funding for this program at \$2.717 billion for mandatory and matching.

Child Care and Development Block Grant (CCDF)

CCDF provides grants to the state to provide low-income families with financial assistance for childcare. Included with financial assistance are programs to improve the quality and availability of child care and the use of child development initiatives.

CCDF funding is composed of three funding mechanisms:

- Discretionary funds and earmarked funds, which are included in the annual appropriations, process.
- Mandatory funding amounts based on the amounts that states received in the base funding period.
- Matching funds are available if states meet certain maintenance of effort (MOE) requirements as well as committing additional state funds.

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) set the total amount for the mandatory and matching portion of CCDF through FY 2002. However, the discretionary portion also known as the Child Care and Development Block Grant (CCDBG) is funded annually through the appropriations process.

The FY 2004 request is contingent on congressional approval and may be adjusted accordingly as final appropriations bills are passed. The budget proposals continue the levels of support for child care through CCDF at \$2.1 billion in FY 2004.

NUTRITION ASSISTANCE

Food Stamps

The food stamp program is an entitlement program, authorized by the Food Stamp Act of 1977. This program provides benefits directly to individuals and households. A state allotment is based on federal standards and is a function of the number of eligible recipients in the state. Individuals or households receive food assistance based on family size, countable income, assets and employment and training requirements. Individual states have the option of providing food stamps to non-citizens made ineligible by the passage of Welfare Reform (P.L. 104-193) and to persons made ineligible by the work requirements enacted in welfare reform.

The balanced budget act allows states to exempt up to 15 percent of non-working able-bodied adults from the work requirements in welfare reform. The Agricultural Research, Extension and Education Act of 1998 restored food stamp benefits to some recipients who lost them due to welfare reform legislation in 1996. Benefits were restored for elderly and disabled legal immigrants and children under 18 who lived in the U.S. and were eligible to receive benefits as of August 1996.

The Department of Agriculture appropriation bill funds the Food Stamp program. The FY 2004 budget for all food stamps is \$27.746 billion.

The FY 2004 budget mandates the use of program records from Food Stamps or TANF to directly certify children's eligibility for the National School Lunch program. FNS continues to seek reduction in payment errors especially in states with high error rates, such as Michigan. Any savings resulting from improvement in payment accuracy will be reinvested in the program.

Low-Income Home Energy Assistance Program (LIHEAP)

The proposed funding for FY 2004 is \$1.7 billion with an additional \$300 million available in contingency emergency funds. The budget proposes to allow the president to release emergency funds rather than submit a formal request to Congress.

HEALTH CARE

Medicaid

The Medicaid program, authorized under Title XIX of the Social Security Act, provides medical services and long-term care to income eligible population groups. Medicaid is an entitlement program and expenditures are a function of the number of recipients, the cost of provider payments and the services that eligible recipients receive.

Almost 37 million individuals were enrolled in Medicaid in 2002. Medicaid covers one-fourth of the nation's children and is the largest single purchaser of maternity care and long-term care services. The elderly and disabled comprise one-third of Medicaid beneficiaries but account for two-thirds of Medicaid spending.

The State Children's Health Insurance Program (SCHIP) was established in 1997 to provide money to states for health care services to low income, uninsured children. SCHIP gives states great flexibility in program design with a basic set of federal standards.

Both Medicaid and SCHIP rely on state and federal financial sharing for program expenditures. The federal contribution or Federal Medical Assistance Percentage (FMAP) is based on state per capita income. The federal share of spending ranges from 50 percent to 77 percent. Medicaid spending for FY 2004 is projected to be \$182.4 billion.

FY 2004 budget proposals include the restructuring of Medicaid and SCHIP and would allow states to merge their SCHIP entitlements with Medicaid funds. States will have the option of totally revamping how their Medicaid programs are structured and

financed. States could change optional benefits and populations, but would not have new flexibility for mandatory benefits and populations. There would also be a maintenance-of-effort requirement.

Besides program flexibility, states that opt into the new program would be subject to a new financing structure. All of the state's Medicaid, SCHIP and disproportionate share (DSH) payments would be merged and then split into two block grants, one for acute care and the other for long-term care. Allocations would be based on each state's level of Medicaid and SCHIP spending in 2002 and would increase each year based on a formula. \$3.25 billion in new funds would be made available to states in the first year of the program with a total of \$12.7 billion over the first seven years. However, new funding would be offset by reductions in years eight through ten to achieve budget neutrality.

SOCIAL SERVICES

Foster Care

The Foster Care program is authorized under Title IVE of the Social Security Act. This is an entitlement program that provides federal financial assistance to states for foster care assistance payments, placement services and administrative expenses. This benefit is provided to eligible children who need care outside of the family home and are in the care of the state agency that administers this program.

Payments to foster care providers are federally matched using the Medicaid matching rate, while placement services and state administrative expenses are matched at 50 percent. This program is funded through the Labor/HHS/Education appropriation bill. The Presidents budget proposes funding of \$11.14 billion in FY 2004 for Foster Care, Adoption Assistance and Independent Living.

Social Services Block Grant

The Social Services Block Grant (SSBG) was established in 1974 under Title XX of the Social Security Act. It provides states with funds for a variety of social services programs, such as child and adult day care, prevention of abuse and neglect of both children and vulnerable adults and independent living and other home-based services.

Funding levels of \$1.775 billion for FY 2001 have been reduced to \$1.7 billion for FY 2003 and FY 2004. The budget proposal restores transferability from TANF to SSBG from 4.25 percent to 10 percent.

Community Development Block Grant

This program is authorized under Title I of the Community Development Act of 1974 and provides states and local communities with funding to provide decent housing in a suitable environment to low and moderate income families. The VA/HUD/Independent Agencies appropriations bill funds this program.

The FY 2004 budget would level-fund the CDBG program at the FY 2002 amount of \$4.4 billion. The president's budget promises to develop a new allocation formula to distribute funds in a more equitable manner.

Head Start

The Head Start program was reauthorized under the Human Services Reauthorization Act of 1998. This program provides project grants to local governments and nonprofit agencies. They in turn provide health, educational, nutritional, social and other related services to low income pre-school children and their families. The Labor/HHS/ Education appropriation bill funds this program.

The presidential budget proposal earmarks funding levels of \$6.8 billion for FY 2004, an increase of \$278 million over 2003 funding. The Head Start program is slated for reauthorization in 2004. Proposals for reauthorization focus on improvement in preschool programs, especially Head Start. Other areas to be improved are coordination of activities, better accountability for the use of funds, development of common goals for preschool programs, professional development for preschool teachers, and support for parents with preschoolers.

The Head Start program will be transferred from HHS to the Department of Education in 2005.

Children and Family Services Discretionary Programs

The Adoption and Safe Families Act authorizes funding for adoption incentive payments to states to increase the number of children adopted out of the foster care system. Most children and family services programs have small increases proposed for FY 2004.

Housing

The 2004 budget includes a proposal to convert the Section 8 housing program into a state-based block grant called Housing Assistance for Needy Families (HANF). Funding for this is proposed at \$12.5 billion, an increase over funds in FY 2002 but approximately equal to House and Senate proposals for FY 2003. The federal government would encourage coordinating this block grant with the TANF block grant.

Previous project-based assistance funded in prior years would continue to be administered by HUD rather than becoming part of the state administered block grant.

[lee]FY 2004 Federal Budget.doc/04-02-03